

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0010-02
Bill No.: SCS for HB 2
Subject: Taxation and Revenue - General; Revenue Dept.
Type: Original
Date: September 14, 2011

Bill Summary: Would change certain provisions relating to the collection of state revenues.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
General Revenue	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)
Total Estimated Net Effect on General Revenue Fund	Unknown to (Unknown)	Unknown to (Unknown)	Unknown to (Unknown)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Conservation Commission	Unknown	Unknown	Unknown
Parks, and Soil and Water	Unknown	Unknown	Unknown
Total Estimated Net Effect on <u>Other</u> State Funds	Unknown	Unknown	Unknown

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 13 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Total Estimated Net Effect on FTE	0	0	0

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☐ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2012	FY 2013	FY 2014
Local Government	(Unknown)	(Unknown)	(Unknown)

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of the State Auditor**, the **Office of Administration**, **Administrative Hearing Commission**, the **Department of Economic Development**, the **Department of Higher Education**, the **Department of Insurance**, **Financial Institutions**, and **Professional Registration**, the **Department of Natural Resources**, the **Department of Public Safety**, **Capitol Police**, the **State Tax Commission**, the **Missouri Lottery**, the **Missouri Gaming Commission**, and the **Missouri Consolidated Health Care Plan**, assume this proposal would have no fiscal impact on their organizations.

Officials from the **Office of the Secretary of State** (SOS) assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

Officials from the **Office of the Attorney General** assume this proposal could be implemented with existing resources.

Officials from the **Department of Conservation** (MDC) stated that the proposed legislation not only authorizes additional collection procedures for money owed to the state, but also includes a reciprocal collection and offset agreement with the federal government, and a provision for a tax amnesty program.

MDC officials assume this would have an unknown positive fiscal impact on their organization. MDC officials also assume their organization could refer outstanding debt to the Department of Revenue for collection, but noted that the impact of that provision would be minimal. Finally, MDC officials assume that the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

ASSUMPTION (continued)

Officials from the **Joint Committee on Public Employee Retirement** stated that this proposal would not create a substantial proposed change in future plan benefits, and therefore, no actuarial cost study would be required.

Officials from the **Joint Committee on Administrative Rules** stated that the proposal is not anticipated to cause a fiscal impact on their organization beyond its current appropriation.

Officials from the **Office of the Governor**, the **Office of the State Treasurer**, the **Department of Health and Senior Services**, the **Department of Public Safety**, **State Emergency Management Agency**, the **MoDOT and Highway Patrol Employees' Retirement System**, **St. Louis County**, and the **City of Belton** assumed a previous version of this proposal would have no fiscal impact on their organizations.

Officials from the **Office of Administration, Division of Budget and Planning**, (BAP) assumed a previous version of the proposed legislation would not result in additional costs or savings to their organization.

DOR collections

BAP officials stated that the proposal would increase General and Total State Revenue by improving tax collection procedures on delinquent taxes and/or debt owed to the state.

- * 32.028, 32.410-32.460 - centralized debt collection
- * 32.058 -- first class mail
- * 32.087 - 1% cost of collection retention
- * 32.385 -- would allow the Department of Revenue and the Office of Administration to enter into a reciprocal collection and offset program with the federal government.
- * 105.716 - "No tax due" statements for Legal Expense Fund payments.
- * 140.910 - administrative garnishments

BAP officials deferred to the Department of Revenue for estimates of the costs and increased revenue collections resulting from these operational efficiencies and programs.

ASSUMPTION (continued)

Tax Amnesty

BAP officials assumed the proposal would create an amnesty from accrued penalties and interest on unpaid taxes, if taxes are appropriately filed during a period from January 1, 2012, to June 30, 2012. This proposal appears to be similar to the amnesty program in FY 2003. BAP estimates that \$75 million in revenues was received under that program, including \$50 million already identified from DOR investigations completed or in process. That \$50 million is part of the revenue base when the consensus revenue estimates are determined for FY 2012 and future years. BAP estimates \$25 million of these revenues were "new" revenues from previously unidentified sources. Of these figures, approximately 70% would pertain to General Revenue.

Officials from the **Office of Administration, Information Technology Services Division** (ITSD) stated in response to a previous version of this proposal that ITSD would postpone other projects to absorb costs estimated at 900-1,000 hours of application development with a minimum of 3 people working on it (2 programmers and 1 tester). ITSD officials estimated a total elapsed time of 3 months but already have the project design documented.

Officials from the **Department of Labor and Industrial Relations** (DOLIR) assumed that a previous version of the proposal could implement provisions in Missouri which conflict with federal requirements for the operation of the Unemployment Insurance (UI) program. DOLIR officials stated that if the UI program fails to be certified, Missouri would lose \$51 million in federal funds the state receives to administer the UI program and Missouri employers could lose approximately \$868 million each year in credits against the federal unemployment tax.

Oversight assumes this proposal could be implemented without creating a conflict with federal requirements for the unemployment insurance program.

ASSUMPTION (continued)

Officials from the **Department of Revenue** (DOR) provided the following response to this proposal.

The tax amnesty provisions would have minimal impact on FY 2012, but could increase state revenue in FY13. Because the legislation includes known tax liabilities, some portion of the increase will reflect acceleration of the collection of liabilities that DOR would have collected after FY 2012 and FY 2013. The proposal would reduce collection of interest and penalties that would have been paid in FY 2012, FY 2013, and subsequent years. The proposal could also have the same effect on local sales and use tax interest and penalties. Other provisions included in this legislation would increase revenues in future fiscal years.

DOR and ITSD-DOR would need to make programming changes to tax systems to identify filers and returns eligible for amnesty, and reimpose penalty and interest if the taxpayer is not in compliance for eight years. DOR would create an amnesty form and notices to issue to taxpayers that detail amounts owed and amounts eligible to be waived under the amnesty provisions.

ASSUMPTION (continued)

Revenue impact (millions of dollars)

Statute Sections	Subject	FY 2012 General Revenue	FY 2012 All Funds	FY 2013 General Revenue	FY 2013 All Funds	FY 2014 General Revenue	FY 2014 All Funds
32.028, 32.410, 32.420, 32.430, 32.440, 32.450, 32.460	Centralized State Debt Collections	\$0.00	\$0.00	\$0.75	\$1.00	\$4.00	\$6.00
32.058	Certified mail	\$0.50	\$0.50	\$1.00	\$1.00	\$1.00	\$1.00
32.087	One percent collection fee	\$0.20	\$0.20	\$0.35	\$0.35	\$0.35	\$0.35
32.383	Tax Amnesty	\$0.00	\$0.00	\$20.00	\$24.00	\$0.00	\$0.00
32.385	Federal offset	\$1.00	\$1.20	\$3.00	\$3.50	\$6.00	\$7.00
105.716, 140.910	Garnishments	\$1.30	\$1.30	\$3.00	\$3.00	\$3.00	\$3.00

DOR officials estimated the tax amnesty provisions could have a positive impact on Total State Revenue in FY 2012 and FY 2013 of up to \$74 million. However, DOR officials also stated that up to \$50 million of the \$74 million would be already identified by the department. DOR officials assume that an overwhelming majority of the \$50 million, plus interest and penalties, could be collected without amnesty. Therefore, DOR officials estimated that net new revenues would be \$24 million.

ASSUMPTION (continued)

Based on the 2003 tax amnesty, DOR officials expect that the majority of amnesty payments would be made in June of 2012, at the end of the month, and would not be received and processed until FY 2013.

DOR cost to implement the provisions

Sections 32.028 and 32.400 to 32.460

- * Systems upgrade of \$1.5 million
- * Professional services of \$561,000
- * Postage of \$86,250

Section 32.383

- * Based on 2011 estimates, there are approximately 490,000 known taxpayers eligible for amnesty.
- * Postage, envelopes and printing estimate is $490,000 \times \$0.505 = \$247,450$
- * Taxation Division processing costs of approximately \$350,000 for the following:
 - Overtime to review correspondence-\$100,000
 - Overtime to review errors on returns-\$73,000
 - Existing staff and temporary employees to key returns and process payments-\$145,000
 - Customer contacts-\$30,000

Much of the amnesty program cost would be incurred in FY 2013, due to the bulk of the work being received towards the end of the tax amnesty period, and because staff available to work overtime in FY 2012, would be working overtime on their daily job functions for tax season.

DOR officials also recommend an advertising budget of at least \$400,000.

ASSUMPTION (continued)

Section 32.385

_____ DOR would incur postage costs of \$37,400 and the Office of Administration would incur postage costs of approximately \$660 and professional fees of \$93,500. The fees are to the federal government for offsets on behalf of the state.

DOR officials also commented that a number of states and political subdivisions have contracted with private vendors to run their amnesty programs and have seen very good results. The state would not perform many of the requirements noted above, which would reduce the out-of-pocket cost to implement the program. Funds to administer the program could be based on the percentage of the debts collected.

Oversight assumes that the cost to operate the program with DOR staff would be significantly lower than the cost to contract with a vendor since contracted collection programs normally operate on a percentage-of-collections basis, and DOR staff would still be required to process returns and correspondence and to correct errors on returns.

IT impact to implement the provisions

DOR officials estimated the IT impact of this proposal to be \$120,946, based on 4,564 hours of programming time to make changes to DOR systems.

Oversight assumes ITSD-DOR is provided with core funding to handle a certain amount of activity each year. Oversight assumes ITSD-DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, ITSD-DOR could request funding through the appropriation process.

Oversight assumes that DOR has or could identify the approximately \$50 million in outstanding balances from existing filers without the amnesty program; however, those taxes would be collected over a period of several years while the amnesty program would most likely achieve collection of the taxes due in FY 2012 and FY 2013. Interest and penalties due on those delinquent taxes would not be collected, however. Oversight also notes that DOR has indicated additional revenues from the amnesty program for FY 2012 and FY 2013. For fiscal note purposes, Oversight will indicate additional revenues greater than \$100,000 for FY 2012 and FY 2013, and unknown additional revenues for FY 2014 due to the extended compliance requirement.

ASSUMPTION (continued)

Oversight notes that this proposal would require DOR to deposit all collections from the amnesty program, except for those which are earmarked by the Missouri Constitution, into the state General Revenue Fund. Accordingly, Oversight will indicate an unknown positive fiscal impact from this proposal in FY 2013 for the Conservation Commission Fund and the Parks and Soils Sales Tax Funds. Other state funds and local governments which would receive additional tax collections under existing provisions would not have a fiscal impact from the amnesty program.

Oversight also notes that this proposal would authorize DOR to waive penalties, interest, and additions to tax which would be applied and collected under existing provisions regarding delinquent tax administration. Oversight assumes the additional taxes collected would exceed the penalties, interest and additional taxes which would have been collected, and for fiscal note purposes only will indicate an unknown revenue reduction in the General Revenue Fund.

Oversight will also indicate unknown costs in excess of \$100,000 in FY 2013 for the Department of Revenue to administer the amnesty program and for the consulting, system upgrade, and additional postage.

<u>FISCAL IMPACT - State Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
GENERAL REVENUE FUND			
<u>Additional revenue</u> - collection procedure improvements (32.028, 32.058, 32.410, 32.430, 32.440, 32.450, 32.460, 105.716, 140.910)	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - retention from collections (32.087)	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Additional revenue</u> - tax amnesty program (32.383)	<u>More than \$100,000</u>	<u>More than \$100,000</u>	<u>Unknown</u>
<u>Additional revenue</u> - federal reciprocal agreement (32.385)	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
<u>Cost</u> - Department of Revenue	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>	<u>(More than \$100,000)</u>
<u>Revenue reduction</u> - foregone interest, penalties, and additions to tax	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>	<u>Unknown to (Unknown)</u>
CONSERVATION COMMISSION FUND			
<u>Additional revenue</u> - amnesty program and improved collection procedures	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>

**PARKS, AND SOIL AND WATER
 FUND**

<u>Additional revenue</u> - amnesty program and improved collection procedures	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	<u>Unknown</u>	<u>Unknown</u>	<u>Unknown</u>
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<u>FISCAL IMPACT - Local Government</u>	FY 2012 (10 Mo.)	FY 2013	FY 2014
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LOCAL GOVERNMENTS

<u>Revenue reduction</u> - Department of Revenue collection percentage	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	<u>(Unknown)</u>	<u>(Unknown)</u>	<u>(Unknown)</u>
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FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

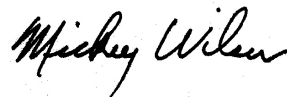
FISCAL DESCRIPTION

The proposed legislation would change certain provisions relating to the collection of state revenues.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Governor
Office of the State Treasurer
Office of the Secretary of State
Office of the State Auditor
Office of the Attorney General
Office of Administration
 Administrative Hearing Commission
 Division of Budget and Planning
 Information Technology Services Division
Department of Conservation
Department of Economic Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions, and Professional Registration
Department of Higher Education
Department of Labor and Industrial Relations
Department of Natural Resources
Department of Public Safety
 Capitol Police
 State Emergency Management Agency
Department of Revenue
State Tax Commission
Missouri Gaming Commission
Missouri Lottery
MoDOT and Highway Patrol Employees' Retirement System
Joint Committee on Administrative Rules
Joint Committee on Public Employee Retirement
Missouri Consolidated Health Care Plan
St. Louis County
City of Belton



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